

Sole Proprietorship Returns

Income Statement and Industry Statistics for 1978

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Initial detailed income statistics from individual income tax returns for 1978 show that sole proprietorship businesses increased in number to approximately 12 million compared to 1977. Business receipts grew to \$443 billion and net income (less deficit) totaled \$59 billion. Compared with 1977, this was a 6 percent increase in the number of businesses, a 13 percent rise in business receipts, and a 15 percent growth in overall profit.

Total proprietorship activity in terms of number of businesses and receipts for 1974-78 is highlighted below.

<u>Income year</u>	<u>Proprietorships (thousands)</u>	<u>Receipts (millions)</u>
1978	12,018	\$443,355
1977	11,345	393,872
1976	11,358	374,960
1975	10,882	339,221
1974	10,874	328,262

Farm businesses comprised 25 percent of all sole proprietorships in 1978. While there was an annual increase in the number of nonfarm businesses during the five-year period 1974-78, the number of farms remained relatively stable, as indicated.

<u>Income year</u>	<u>Farm proprietorships (thousands)</u>	<u>Nonfarm proprietorships (thousands)</u>
1978	3,109	8,908
1977	2,932	8,414
1976	3,218	8,140
1975	3,122	7,760
1974	3,178	7,696

Industrial Activity

Increases from 1977 in the number of sole proprietorships occurred for each of the eight industrial divisions. These increases ranged widely, from 3 percent for wholesale and retail trade to 16 percent for mining. Percentage increases in the number of proprietorships in each division are indicated below.

<u>Industrial division</u>	<u>Proprietorships (thousands)</u>	<u>Change from 1977</u>
Agriculture, forestry, fishing..	3,387	6.6%
Mining	82	15.8
Construction	1,069	7.5
Manufacturing	241	7.5
Transportation and utilities	413	7.2
Wholesale and retail trade	2,334	3.0
Finance, insurance, and real estate ...	984	9.9
Services	3,473	5.1

Business Receipts.--Wholesale and retail trade, the industrial division which had the largest amount of business receipts, accounted for \$179 billion or 40 percent of receipts for all sole proprietorships (see Figure A). Within this division, receipts for retail trade industries totaled \$136 billion or 76 percent of the total. Below are receipt figures for total retailers and for the three major industries which contributed to this large percentage.

<u>Major industry</u>	<u>Receipts (millions)</u>	<u>Proportion of Receipts</u>
Retail trade, total	\$135,627	100.0%
Automotive dealers and service stations	45,401	33.4
Food stores	26,890	19.8
Eating and drinking places	15,947	11.7
Other retail trade	47,589	35.1

Among sole proprietorship automotive retailers, gasoline service stations was the industry with the largest single amount of receipts. The growth of business receipts for service stations was in sharp contrast to the steady drop in their number over the decade ending with 1978. For 1969, there were 212,329 such businesses and their receipts amounted to \$19 billion. Data for the more recent years are presented below.

<u>Income year</u>	<u>Proprietorships</u>	<u>Receipts (millions)</u>
1978	129,977	\$30,129
1977	134,977	27,018
1976	150,710	27,450
1975	161,559	26,130
1974	163,755	25,559

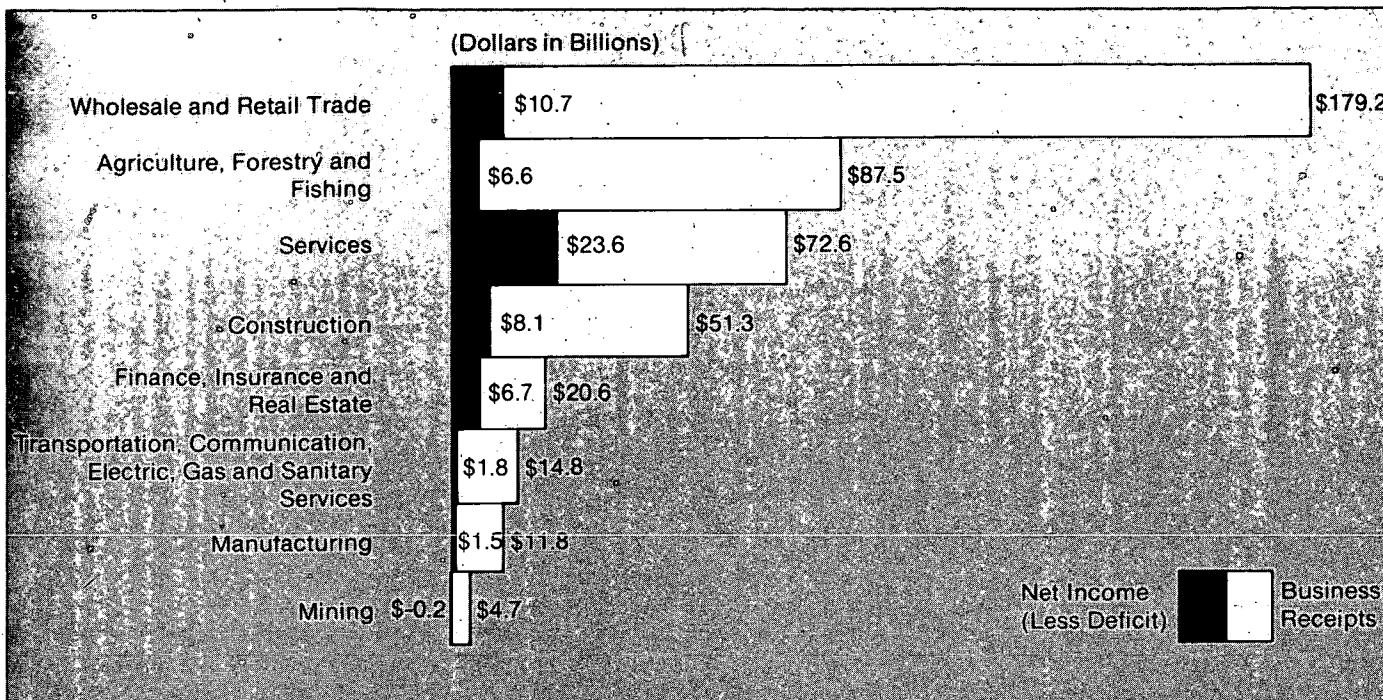
The industrial division which had the second largest amount of business receipts was agriculture, forestry, and fishing. Receipts amounted to \$88 billion or 20 percent of all proprietorship receipts. Virtually all of this, about \$82 billion, was attributable to farm businesses. In fact, farm receipts accounted for 18 percent of all proprietorship receipts.

Farming industries showing the most receipts were field crop farms and beef cattle farms. Shown below is the proportion of farm receipts accounted for by these industries.

<u>Minor industry</u>	<u>Receipts (millions)</u>	<u>Proportion of receipts</u>
Farms, total	\$81,724	100.0%
Field crop	35,366	43.3
Beef cattle, except feedlots	17,772	21.7
All other farming..	28,586	35.0

Figure A

Sole Proprietorship Businesses: Business Receipts and Net Income (Less Deficit) by Industrial Division, 1978



The third and fourth divisions with the largest receipts were services and construction, respectively. Together, they accounted for \$124 billion in business receipts. The medical and health service industries, with \$21 billion, accounted for about 30 percent of the receipts reported for services; self-employed special trade contractors accounted for \$27 billion, more than half of the receipts for the entire construction industry.

Overall Profits.--There was a \$7.6 billion increase in sole proprietorship profits over 1977. Over two-thirds of all businesses reported a net income--

	Proprietorships (thousands)	Net amount (millions)
Net income (less deficit) ...	12,018	\$59,027
Net income	8,255	75,329
Deficit	3,763	16,302

The four top-ranking divisions in terms of overall profits were services; wholesale and retail trade; construction; and, finance, insurance and real estate. In the latter division, real estate accounted for more than half of the profits (\$4.1 billion), while insurance agents and brokers (\$2.4 billion) made up most of the remainder. The overall net income for the four leading industrial divisions and the rates of return on business receipts for them are shown below:

Industrial division	Net income (less deficit) (millions)	Ratio to business receipts
Services	\$23,598	5.3%
Wholesale and retail trade	10,745	2.4
Construction	8,104	1.8
Finance, insurance and real estate..	6,655	1.5

Mining was the only industrial division which did not share in this overall profit. Mining industries, dominated by oil and gas extractors, reported a \$974 million deficit which more than offset the \$784 million in income reported for the division. A contributing factor was the amount deducted for intangible drilling costs.

Basic Table Information

Table 1 shows complete income statement data for all businesses and for businesses with net income. These data are classified by the eight major industrial divisions as well as by selected industries within those divisions.

Information on the sample used for the statistics, on sampling and nonsampling error, and on law changes may be found immediately following Table 1.

Additional detailed statistics for sole proprietorships and their owners, as well as complete definitions of terms and a comprehensive description of data limitations, will be available in Statistics of Income--1978, Sole Proprietorship Returns.

DATA SOURCES AND LIMITATIONS

These statistics are based on a systematic sample of unaudited individual income tax returns, Forms 1040. The sample was stratified based on presence or absence of a Schedule C, State from which the return was filed, adjusted gross income or largest source of income and business plus farm receipts. The 1978 returns were selected at rates ranging from 0.02 percent to 100 percent. There were 79,798 returns (accounting for 94,175 businesses) in the 1978 sample estimating a total population of 11,230,644 returns (and 12,017,953 businesses). The corresponding return counts for 1977 were 79,440 and 10,611,981.

Because the estimates are based on a sample, they are subject to sampling error. The return data are also subject to nonsampling error due to taxpayer reporting variations and to discrepancies introduced during statistical processing.

Coefficient of Variation

The upper limits of the coefficient of variation shown below for 1978 (for frequency estimates only) are intended as a general indication of the reliability of the data.

<u>Coefficient of Variation</u>	<u>Agricultural Industries</u>	<u>Other Industries</u>
1%	not applicable	9,673,000
2		2,418,300
4	2,394,100	604,600
10	383,100	96,700
20	95,800	24,200
30	42,600	10,700
35	31,300	7,900
50	15,300	3,900

Additional measures of the coefficient of variation for specific industries and for the various data items will be presented separately in the forthcoming Statistics of Income report for 1978. The computed

coefficients of variation of estimates already published in the 1977 Statistics of Income report can be used to approximate the reliability of similar 1978 estimates.

Nonsampling Error

Nonsampling error was controlled during statistical processing by a variety of methods. Among these was a systematic verification at field processing locations of the manual data editing and industry coding. As a further check on the quality of the editing and industry coding, subsamples selected after field verification were reprocessed in the National Office. Key entry of the data at the processing locations was also subjected to 100 percent verification.

Prior to tabulation, numerous computer tests were applied to each return record to check on inconsistencies. Lastly, prior to publication all statistics and tables were reviewed for accuracy and reasonableness in light of provisions of the tax laws, business reporting variations and limitations, economic conditions, and comparability with other statistical series.

Definitions and Law Changes

Definitions of the data items presented in the tables are, in general, the same as those presented in Statistics of Income--1977, Sole Proprietorship Returns.

There was only one major law change affecting the comparability with statistics for prior years. For 1978, the FUTA (Federal Unemployment Tax Act) tax of 3.4 percent was imposed on the first \$6,000 of wages paid to each employee during the year. In 1977, the tax had been imposed on only the first \$4,200. Because the Federal Unemployment Tax was imposed solely on the employer (it could not be collected or deducted from the wages of employees), the basic effect of this change was to increase the deduction for taxes paid.